

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

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'07B - Memo 5

March 29, 2004

TO: Steve Bender, Department of Administration
Dave Galt, Department of Transportation
Jeff Hagener, Department of Fish, Wildlife and Parks
Scott Seacat, Legislative Auditor
Bob Brown, Secretary of State
Jan Sensibaugh, Department of Environmental Quality
Mike McGrath, Attorney General

cc: All Other State Agencies and Centralized Services Administrators

FROM: Chuck Swysgood, Budget Director
Office of Budget and Program Planning

SUBJECT: Guidelines for Fixed Costs Schedules for the 2007 Biennium Budget

This is a request for statements of expenditure accounts that will be used to develop the 2007 biennium executive budget. Guidelines apply to the development of all fixed cost allocations and adjustments for other expenditure accounts that are driven by a proprietary operation and have a projected annual expense of \$1 million or more. All requested information must be emailed to Christi Moyer, Senior Budget Analyst, by June 16, 2004.

The Department of Administration will need to submit an equipment price list/schedule and supporting documentation. The Department of Environmental Quality will need to submit the Energy Conservation Account repayment schedule.

Fixed Costs

For the following agencies please submit the proposed rate for the following services:

SOS: Administrative Rules, Records Management, and Microfilming Charges
DOJ: Agency Legal Services

Fixed Cost Allocations

For the following agencies please submit the fixed cost allocations for each client agency and supporting documentation. If there is a change in the allocation method, please discuss with Christi prior to June 16. Please consolidate your documentation into as few files as possibly, using multiple tabs within an Excel file.

<u>Exp. Account</u>	<u>Name</u>	<u>Administering Agency</u>
62104	Insurance	DOA
62113	Warrant Writing	DOA
62114	Payroll Service	DOA
62122	Audit	OLA
62148	SABHRS Admin costs	DOA
62174	Data Network	DOA
62307	Messenger Service	DOA
62527	Capitol Complex Rent	DOA
62770	Capitol Complex Grounds	FWP
62875	MT PRRIME bond costs	DOA
62895	SFCAP	DOA

For the following agencies submit the requested adjustment factors for the following accounts:

<u>Exp. Account</u>	<u>Name</u>	<u>Administering Agency</u>
62142	Disk Storage Charges	DOA
62168	Read/Write Computer Trans	DOA
62172	Batch CPU Seconds	DOA
62177	TSO CPU Seconds	DOA
62178	IDMS CPU Seconds	DOA
62180	CICS CPU Seconds	DOA
62370	Telephone Equipment	DOA
62385	Long Distance Charge	DOA
62510	In-State Motor Pool	DOT

General Guidelines

OMB Circular A-87

The administering agency must assure compliance with OMB Circular A-87 requirements when developing the rates.

Supporting Documentation for FY04-07 Projections

Give a general description of service(s), a projection of demand for each service, a projection of the rate, and the rate methodology. Indicate if your FY 2005 rates are different from your FY 2004 rates. Once these rates are approved, client agencies will build their budgets. Rate increases by administering agencies will impose budget constraints on the other state agencies.

When building you analytical reports please include FY00 through FY07, revenue, expenses,

and working capital. For FY04 projections include actual expenses through May 2004, and projected expenses for FYE 2004 at second level. Projected expenses must include direct costs and a “fair share” allocation of indirect costs at second level. When projecting personal services, include the number of current level FTE without vacancies. Use the January 2005 pay plan amounts for each year. Calculate operating expenses using FY 2004 actuals and zero inflation. If there are major objects of expenditure, which are expected to increase/decrease by amounts significantly different than the 0% factor, identify the cost assumptions and provide supporting documentation.

Program changes greater than \$200,000 are defined as “new proposals” and may be factored into the rates. Consistent with the EPP Instructions, PL and NP decision packages will be required now. Expense assumptions for SFCAP rates may be increased by the amount of any under recoveries in previous periods. Propose a rate structure by service with and without the new proposals.

Working Capital

Working capital balance is the cash and/or cash equivalents minus short-term liabilities. Working capital reserves are analyzed in determining the rate. At the end of the 2007 biennium, projected working capital reserves may not exceed 60 days average daily expenses, unless a different number of days have received federal approval. Agencies may submit exception requests to the 60-day working capital reserve provision. Exceptions include: SFCAP rates, and the state self-insurance fund for tort claims that maintains an additional reserve for all reported claims which may require payment at the end of the biennium based on historical experience and “worst case” estimates.

Computation of Inflation/Deflation Factors

Presently the OBPP is using an inflation/deflation factor of 0% for the 2007 biennium. To the extent that other inflation/deflation factors are built into the budget, these and other expenditure accounts will be considered in a separate exercise later in the budget development process. The 0% factor is to be applied to your proposed rates/schedules.

If two or more rates are applicable to a single expenditure account, the administering agency should develop a single adjustment factor by deriving a weighted average. For example, all in-state motor pool charges are recorded in object 62510, yet the DOT motor pool rents several classes of vehicles, each with a separate mileage rate. For purposes of developing an adjustment factor, OBPP will develop a weighted average rate for all vehicle classes, comparing FY 2004 to the projected FY 2006 and FY 2007 results.

Segregation of “Service Categories” & Inclusion of All Services Within a Category

Account for all service categories, regardless of whether there are separate accounting entities. A service category is defined as a set of closely related services (two or more). The policy for this requirement is that intra-governmental services should be managed as a cooperative enterprise. The “customers” for one service category should not subsidize another unless such subsidies have been explicitly considered in the policy-making process and are justified from the perspective of the state enterprise.

Next Steps

The OBPP will analyze these schedules and rates in June and July. July 13th OBPP will host a Fixed Cost Workshop for agencies to discuss and question the service provider regarding these rates. Please begin preparing a presentation for this dialogue.